



USAID | **WEST AFRICA**
FROM THE AMERICAN PEOPLE

Run My Own Business? Yes, I Can!

Starting and Operating a Woman-Owned Business in Sierra Leone



September 2005
PN-ADE-166



INTERNATIONAL BUSINESS INITIATIVES
Global technology—local solutions

Foreword

In today's fast-paced global economy, African women are beginning to be players. The last decade of reforms has given Africa's private sector an opportunity to grow and show that it can compete. African women have, in the same decade, built on their traditional market knowledge and more recent access to higher education to expand into an amazing variety of business ventures. West African women operate restaurants and sell cosmetics, yes, but they are also architects and doctors, school founders, owners of hotels, web cafés, diamond mines, flour mills, printing presses, and dry cleaners. This manual offers concrete, practical information for women on the road to building successful businesses.

From 2002 through 2005, International Business Initiatives—IBI has been implementing the USAID-funded Growth through Engendering Enterprise (ECOGEE) in Economic Community of West African States (ECOWAS) countries project. With IBI's support, West African businesswomen have received training, improved their capacity to network, developed information technology skills, and strengthened business linkages. As a result, businesswomen across the region have increased regional and international trade, grown their businesses, and increased profits.

This manual outlines the steps, procedures, and costs associated with starting a business and remaining competitive and profitable. Guides have been developed for the six countries where IBI worked: Ghana, Mali, Niger, Nigeria, Senegal, and Sierra Leone. The manuals cover topics such as business planning, human resources, marketing strategies, and financial management. More than other business owners, West African businesswomen have to overcome many obstacles—but the greatest of these has been the lack of a centralized source of information for businesswomen. We hope this manual represents a small but important step toward overcoming this lack.

This work was funded by the ECOGEE project under cooperative agreement number 688-A-00-02-00064-00 of the U.S. Agency for International Development's (USAID) West Africa Regional Program (WARP). IBI would like to thank USAID/WARP for the opportunity to implement this project. USAID's Office of Women in Development and the Bureau for Economic Growth, Agriculture, and Trade also supported the effort.

IBI would also like to acknowledge the Sierra Leonean consultants Abdul Karim Noah and Richard Pearce from the Institute of Public Management and Administration (IPAM), and Moses M. Feika from Zenith Consultancy for the excellent local research conducted for this manual, as well as Sasha Resnick, Natalie Domond, Nadine Duplessy Kearns, Elizabeth Burden, and Paul Hurwit for their contributions.

The views expressed in this publication are those of the authors and not necessarily those of USAID.

Contents

Foreword.....	iii
1. Factors to Consider when Starting a Business.....	1
2. Being an Entrepreneur	5
3. Your Business Plan.....	9
4. Business Ownership and Types/Legal Forms.....	19
5. Business Registration Procedures	23
6. Taxes and Duties.....	27
7. Utilities.....	31
8. Incorporating Human Resources into Your Business.....	35
9. Managing Money	37
10. Secrets of Financing.....	47
Appendix. Useful Business Forms.....	51

1. Factors to Consider when Starting a Business

When you are thinking of starting a business, it is wise to first ask yourself some questions:

- Do I know the product or service field?
- Do I have the resources or can I get them?
- How will my family cope?
- Do I have the qualities needed to succeed?

While chapter 3 provides a more detailed discussion of some of these issues, here are some basic factors you should consider:

Business idea

First is to decide what type of business you want to start. This is your business idea. Your business idea includes what your business will produce or what service it will provide, whom your business will sell to, how it will sell its products or services, and what customer needs the business will satisfy. Spelling out your business idea in detail at the beginning increases your chances of success.

Technical skills

Entrepreneurs need the practical abilities to produce the goods or services. If you plan to start a hairdressing business, for instance, you need to be able to wash, set, and style hair. Without the necessary technical skills, it is going to be difficult for you to start and run your hairdressing business.

Family situation

It is important to have your family's support. Starting and running your own business will take a lot of your time, which might conflict with your family responsibilities. When your family agrees with your business plan and supports you, you will be able to give enough time to your business.

Personal entrepreneurial characteristics and skills

You are the most important person in the business, and its success depends on your efforts. Since you are responsible for managing the business, you need certain entrepreneurial characteristics and skills:

- **Motivation:** You must be highly motivated by your business idea and enthusiastic about the prospects of starting and running your own business. Your plan should arise from your interests and desires, not because you have no other job to do. Motivation increases the chances that your business will succeed.
- **Commitment:** You must put your business above everything else and be willing to devote the time, attention, and resources the business needs.
- **Tolerance for risk:** Investing in a business involves risks, including the risk that the business will fail. You must be willing to take such risks. At the same time, you must learn to take calculated risks.

- **Decisionmaking skills:** A good entrepreneur must be able to make difficult decisions affecting the business.
- **People skills:** Good entrepreneurs must be able to deal with customers. They also have to be able to handle suppliers.
- **Self-knowledge:** Wise entrepreneurs know their managerial strengths and weaknesses. To compensate for the weaknesses, they can hire consultants or employees with complementary strengths.

Other key factors

Other factors to take into account when starting a business or preparing a business plan include understanding the following:

- **Customers/market potential:** Define your potential customers and their needs. It is important to estimate how much business you will receive from your target market.
- **Competition:** Know your potential competitors—firms selling similar or substitute products or services to your target market.
- **Resources/capital:** Determine the resources you will need, what you have available, how much they will cost, where you will get them, and how you will pay for them. Some of the basic resources you need to succeed or start a business include the following:
 - **Human:** Employees are the most important resources of a business.
 - **Physical:** Land, building, machines, equipment, and natural resources needed to achieve business objectives; however, these resources come with costs. As a beginner you can start operating from your home. You can also use the services of communication and business centers for typing letters or other secretarial services.
 - **Financial:** Organizations need cash and credit to operate. Physical and intangible resources are all obtained through financing. The major sources of finance are friends and relatives, banks and nonbank financial institutions (e.g., savings and loans companies). Nearly all successful businesses in Sierra Leone, as in other countries, rely on their own funds for the first two years.
- **Marketing:** Determine potential customers, which products or services to offer, the distribution system to get the products or services to the customer, means of promotion to induce the customer to buy the products, and pricing.
- **Uniqueness:** Your product or service should offer customers something unique that they cannot get elsewhere. You need an original idea or invention, or your idea may be to improve on somebody else's product/service. People must need your product or service: if they do not need it, no marketing effort will make it succeed.
- **Market saturation:** When selecting your business idea, consider whether there are more providers, suppliers, or service/product than there are customers. You may have a great

idea, but there may not be enough room for you in the industry because too many people are already providing something similar.

- **Location:** Because of its long-term relationship to profitability, a firm's location is key and deserves thoughtful analysis. Poor location is a hindrance that is especially destructive when it comes to retail operations. For retail businesses, the key to profitability is traffic. If your business is located off the main traffic zone, its survival and prosperity diminishes. A firm's growth might force expansion requiring the business owner to make a decision about expanding at the same location, if possible, or moving to another area. Regardless of the reason, the location decision may involve a significant expenditure, and you will have to live with the decision. To start a business, you should know the various factors that are important in making your location decision:
 - proximity to the target market
 - proximity to your source of labor
 - transportation facilities
 - availability of raw materials
 - size of population/potential market
 - demographic factors (age, sex, distribution) of the population

2. Being an Entrepreneur

Introduction

The person setting up a business is an *entrepreneur*. Entrepreneurs need certain personal characteristics and managerial skills:

- commitment and determination
- willingness to take risks and tolerance of ambiguity and uncertainty
- creativity, self-reliance, and adaptability
- motivation to excel
- ability to deal with customers and handle suppliers
- ability to make decisions

As mentioned in chapter 1, entrepreneurs need a wide variety of skills to succeed, but not many can do everything from sales to service to accounting by themselves. In other words, you must have knowledge of different disciplines, such marketing, accounting, human resources management, but you do not need to be an expert in all of them. When you recognize your weaknesses, you can hire consultants or employees with complementary strengths.

Entrepreneurship has both advantages and disadvantages. Advantages include being independent, making your own decisions, having the option to work at home, and having the ability to focus on a select number of key customers. Disadvantages include long working hours and the risk you may fail and lose your capital. In fact, business failure is common: worldwide, fewer than half of all new businesses survive the first five years.

Women entrepreneurs

You should consider realistically what you can do at different stages in your life. For example, if you have young children, it may be hard to balance family obligations with the demands of caring for them. It may also be a time when traveling for regional and international business is difficult. As your children get older, you may have more time to devote to growing a business. On the other hand, if you plan to pay for private education for your children, those years may be a time to avoid financial risks.

More and more you will find women creating businesses in areas once considered reserved for men. It is important to recognize and be prepared for the additional challenges you will face should you choose to open up such a business. You should be open to learning what makes men in these fields successful and what advantages you still have.

Requirements for business success

What will make you a successful business owner? Generally speaking, successful entrepreneurs tend to exhibit the following characteristics:

- **Energy:** It takes a great deal of energy to start and run your own business. One of the greatest rewards an entrepreneur can achieve is developing a successful business that is a direct result of her own efforts.
- **Initiative:** The small business owner must possess the entrepreneur's initiative to operate independently. Small business ventures require people who are looking for independence

and creativity, and not necessarily the potential for long-term security offered to an employee of an established firm.

- **Organization:** It is very important from the beginning that you are meticulous about records. At the minimum you should keep a ledger of the assets (money and goods) you put in, expenses, and income and orders. You will need this information—and so will bankers, consultants, and others.
- **Appearance:** Dress for success! You should be approachable by customers and business contacts, in part by dressing appropriately. Your manner should also convey your willingness to be helpful and attentive to customer needs. It is an asset if you reflect an attitude that portrays integrity and honesty. You should be able to present your business well at any opportunity. For example, you should always have business cards, business brochures, professional letterhead, etc., on hand.
- **Technical competence and experience:** You must have, or be able to acquire, good technical know-how of your product or service and a general knowledge of your industry. Working as an employee in an established firm can be good preparation. Experience you have already acquired dealing with employees, customers, and suppliers in a particular or related industry, and having been exposed to the running of a similar operation in the past, can be invaluable when you start your own firm. You should also keep up on new developments that could affect your business.
- **Administrative ability:** You must have an aptitude for running the business, including making decisions about employee work schedules, defining employee tasks, supervising every aspect of the daily operation, and setting up and running the record-keeping.
- **Good judgment:** You must learn to foresee the how different decisions may lead to different possible outcomes so that you have the best chance of choosing the optimal course.
- **Restraint and patience:** Try not to overreacting to a situation or act prematurely. A good entrepreneur needs to be level-headed in order to calmly make effective decisions. As you start out, you must be aware of the limitations of your employees so that you do not expect them to immediately achieve expert status.
- **Ability to communicate well:** Effective communication is crucial to the efficient operation of a business. You must be able to communicate with your customers and employees. When you do not clearly convey your thoughts, time, energy, customers, and inventory could be lost.
- **Leadership:** Leadership helps maintain the chain of command within your business. Your position as the business owner involves knowing when and how to act, when to talk and when to listen, when the rules need to be strictly followed, and when you can be flexible. And above all you must develop the ability to judge people and employees.
- **Managerial ability:** You should practice good customer relations. This involves knowledge of consumerism, which includes value, safety, adequacy, and price policies. Value entails making sure that the consumer receives something worthwhile for the money he or she is spending. You should also be aware of safety, both with the product

and the premises. You should not only sell the consumer a product—and guarantee its safety if properly used—but also provide the customer a safe place in which to purchase the product. When selling the product, you should have an adequate knowledge of competitors' products as well as your own so that you can best inform the buyer about a particular product's benefits and limitations. Your business should also maintain an adequate inventory of the product, replacement parts, and if need be, easy access to repair facilities. The selling price should not be exorbitant; rather it should be set so that your business makes a reasonable profit for producing, storing, transporting, marketing, and selling the goods. As an astute entrepreneur you must keep abreast of changing consumer trends, government legislation, and regulations so that you can best adapt and market the product in the face of changing situations.

- **Sense of responsibility to community:** The importance of adopting community, ethical, and social responsibilities as a way of doing business is becoming increasingly important to businesspeople. As an individual, the entrepreneur may feel obligated to have high standards in the way the business is conducted. Should these be absent, however, customers may impose them from outside. Some key community, ethical and social responsibilities include the following:
 - ensuring that your products or services are of high quality and wholesome
 - ensuring sound environmental practices
 - exhibiting honesty in all your business dealings
 - providing employment for members of the communities in which you operate
 - providing social infrastructure for the communities in which you operate
 - supporting charity

Reasons Some Businesses Fail

Not all companies get off to a great start. Some die a quick death; others a slow, agonizing one. Even those that make honored lists don't always remain on the fast track. A common cause of failure is growth into new products, or new geographic areas, that are poorly understood by the entrepreneur. Success can cause the entrepreneur to become overconfident or complacent. And growth can be so fast that the business goes out of control and is not managed properly, resulting in lower quality goods and services.

- **Change of heart:** The hazards of striking out on your own are many. First, you may start your own business and find out that you don't enjoy it. One person who quit a large company to start his own small one stated, "As an executive in a large company, the issues are strategic. You're implementing programs that affect thousands of people. In a small business, the issues are less complex, you worry about inventory every day, because you may not be in business next week if you have negative cash flow." His most unpleasant surprise: "How much you have to sell. You're always out selling. I didn't want to be a salesman. I wanted to be an executive and survival is difficult. An entrepreneur should be able to sell his business else he will soon be out of business."
- **Misjudgments:** In small business there are no small mistakes. This comes up time and again when you talk to entrepreneurs. Some misjudgments can cause serious problems for new or small businesses, or even bring about their collapse, and this can be devastating.
- **Competition:** When competition gets tougher, small businesses feel it first.

- **Financing problems:** Sometimes the entrepreneur may think she is very comfortable financially, and suddenly something happens and she is in distress. Since the size of the business is small, any financial constraint is felt deeply. One entrepreneur remarked, “I remember trying to find enough money to buy food for my family.”
- **Mortality:** One long-term measure of an entrepreneur’s success is the fate of the venture after her death. The organization can outlive the entrepreneur under one of two conditions: if the business has gone public or if the entrepreneur has planned for an orderly succession. Both conditions are relatively rare in Sierra Leone.

3. Your Business Plan

Business plans, business plans, business plans! Why are so many people obsessed with business plans? Are they really necessary?

One of the biggest advantages of creating a business plan is that it requires you to gather price information, which will help you determine how much money you will be able to make from your company's product or service. In addition, the plan asks you to research your competitors and potential customers, helping you determine how much of a profit margin you can afford to add on and still remain competitive. Your business plan also breaks out all the costs you incur to make and sell your product. This will help you do a break-even analysis that will reveal the minimum number of products you need to sell to cover all the costs. This information will tell you if your costs are too high or if you can afford to spend more and maintain the same profit margin as the market allows.

For businesses that sell services, a business plan is ideal, because it helps you define and fine-tune your service. In African economies, services make up a large percentage of business activity, so it is extremely important that your service be unique while at the same time be at a price that is good for you and your customers. The research and planning involved in creating a business plan allows you to do this.

Since a business plan outlines your business idea and objectives, it helps you realize your goals and projected profits. Many potential entrepreneurs have an idea but don't really have a plan to sell it. Or they have been selling a product for a while but have no idea what their customers think about their product or how it compares to those of competitors. Such information is very valuable as business owners expand into new markets and think of new product lines. In developing a business plan, entrepreneurs measure their products' performance, determine appropriate business strategies, and implement changes to achieve short-, medium-, and long-term goals.

Usually you will be in business for two to three years before approaching a bank for a loan to finance growth. At that point, the business plan will include the company's historical and forecast financial picture; this will help illustrate how financially stable the company is and where the company is headed in the near future. This information is extremely important for bankers and investors when considering an entrepreneur's application for credit or a loan. To the bank, the business plan is written evidence of success. After analyzing the client's business plan, banking history, and financial statements, the banker will determine if the entrepreneur will receive financing.

Many people compare a business plan to a set of blueprints. An architect would not build a house without a set of plans, or a blueprint. Nor should an entrepreneur start a business without a well-thought-out business plan. However, while many argue it is an excellent idea to have a business plan with all your ideas and forecasted costs written down on paper, successful businesses have been started without business plans. A great product or service positioned correctly in the right market, a lot of hard work, and a little luck are sometimes enough to get a business up and running quite quickly. On the other hand, a thorough upfront analysis may save an entrepreneur time and money—both very valuable in the startup stage—and if the entrepreneur is looking for financing or joint venture opportunities, business plans are generally required.

While you may not have enough knowledge to do a full business plan before you start, it is still a good idea to complete a simple one. Then as you gather your research and develop your strategy, you can add to it. You should keep in mind that business plans are “working documents,” which means they may change in response to new developments or changes in your company. The information should be included in a business plan:

1. **Cover sheet:** Considered your title page, you should include
 - name, address, and phone number of your company
 - name, title, address, phone number of owners/corporate officers
 - month and year your plan was prepared
 - name of preparer
2. **Executive summary:** Explain in a short one- or two-page overview the content of the business plan. Outline your management style, strengths, objectives, and why you think your business will succeed. Your goals should be clear and interesting to the reader. If applying for a loan or financing credit, the executive summary should state why you are looking for financing, the proposed amount, and how you intend to repay the loan or investor. Since it summarizes the entire business plan, the executive summary is always written last, after all the other elements of the plan are completed.
3. **Company overview:** Summarize the following critical aspects of your company:
 - **Company description:** A few brief paragraphs on your business, historical background, and why it is unique
 - **Company mission statement:** A good mission statement provides vision and direction for the company for at least 5–10 years and should not have to be revised every few years. The mission statement defines your business’s purpose and helps staff and management focus on preserving or strengthening the company’s unique competitive niche. Mission statements are difficult to write, so take your time and brainstorm with your staff.
 - **Short- and long-term goals:** Answer the question “What business are you in?” Remember that how you define your business positions you in the market and sets the tone for success. After answering this question, you should list and describe your short- and long-term objectives (keep in mind that short-term goals always lead to long-term goals).
 - **Description of products or services:** Provide a technical description of your product and/or service, including
 - brief description of competitive products or services
 - how your product differs from those of your competitors (unique features, patent, expertise, special training, etc.)
 - why customers will want to buy your product/service, i.e., your unique selling point
 - how the product is made or manufactured
 - advantages and disadvantages (and how you will overcome them) of your product
 - production capacity and lead times (current and projected)
 - sales prices

- licenses or certifications needed or obtained to meet industry quality standards
 - **Legal structure:** Introduces what type of business you have, whether retail, wholesale, manufacturing, services, or project development. List any licenses or permits needed to operate the business. Address whether this is a new business or an expansion. It is always a good idea to include some historical background as well as the company's legal status (for example, a sole proprietorship, partnership, or joint venture).
 - **Principal ownership:** List key owners: founders, investors, key employees, and directors. Include who they are, what they contribute to the business, their education, experience in this type of business, and the role they play in management. Also list any partnerships or relationships with others that you have developed to enhance your business' performance.
 - **Physical location and facilities:** Describe all physical facilities and their locations. List specific equipment and manufacturing/production processes to make the product. In addition to addresses, discuss how your facilities meet your business needs and the hours of operation.
 - **Management:** List who will run the company along with descriptions of their responsibilities, capabilities, and projected salaries.
 - **Personnel:** List employees, positions, responsibilities, necessary qualifications, and salaries/wages. It is also a good idea to estimate hiring projections.
4. **Marketing plan and strategy:** Explain how you will sell your product or service, including who you want to sell to and how you will advertise.
- **Overview and objectives of the marketing strategy:** Briefly summarize what your marketing strategy accomplishes and specific objectives.
 - **The industry:** Generally divided into two parts, this section is the first part of your market analysis. Gives an overview of the industry as well as a brief summary of where your business is positioned compared to other businesses that have the same or similar product. A complete industry overview includes
 - the industry's size
 - sectors within the industry
 - geographic scope
 - product varieties and complementary products/services
 - major players and buyer profiles
 - markets and customers within the industry
 - degree of competitiveness of the industry (high, medium, low) and how easy it is to enter (list barriers)
 - industry's estimated sales this year, last year, and projected
 - trends—economic, social, or political—that affect the industry and how
 - long-term outlook analysis

One way to learn about the industry is by talking to customers, gathering research and statistics at government agencies, online, trade shows, and by looking at competitor products. Focus groups can also provide valuable insights. Ask yourself questions about where your business fits in the industry:

- What products/services does your business sell?
 - Who is your competition and what is their market share?
 - What differentiates you from your competitors and what is your business' competitive advantage?
 - If just starting, what are your barriers to entry?
 - What is your target market?
 - What is your strategy to stay abreast industry trends and ahead of competition?
- **Market analysis and competition:** Describe your target market, that is, the people to whom you are going to sell your product or services, your customers or clients. It is important to include
 - *Definition of target markets:* In general, the more you know about your customer, the better. Researching your target market will give you insight into their preferences, spending patterns, attitudes about your services or product, and future buying trends (whether they plan to buy the product at the same, increased, or decreased rate in the future). This information will help you “position” your product not only to capture market share but also to attract new customers. Researching your customers is critical to success. Areas to consider include age, gender, geographic location and residence, income, education level, lifestyle, factors that may affect customer trends, and customer type (individuals, wholesalers, private sector, organizations, retailers, government)
 - *Projected analysis:* Based on your research of your target markets, figure out how much of your product you think you can sell by looking at how many similar products are already on the market, how many people are actually buying (a good estimate) this product, and whether the market allows for growth. These numbers will help you estimate anticipated market trends, such as your market share for next year, percentage of repeat customers, percentage of new customers, buyer frequency, and customer preferences. This information will assist you in determining whether to hire new staff, increase production, develop new product lines, or expand outside your current target market.
 - *Competition:* As we mentioned, assessing your competition is important to your ability to make strategic decisions about positioning your product or modifying it to remain competitive. One way to check out competition is to buy samples of their products and test them against your own. In doing so, you should pay attention to price, quality, and performance.¹ You should also list your competitors and their products. By each product, you should write a brief

¹ A great way to get feedback about your own product is to conduct a focus group or blind test with potential consumers. Focus groups usually consist of 8–10 people, preferably strangers who will be able to give you an unbiased opinion of your product. In the focus group, a moderator asks specific questions about what the customer would like to see in the product, how s/he likes the current product, and what changes could be made to improve it. A focus group gives a company the opportunity to “pick the consumer’s brain,” and you can ask questions that will help you better sell your product.

description and comment on its strengths and weaknesses. You can also note how well you think these other products sell in comparison to yours and how your product differs from them.

- *Market strategy:* Explain how you are going to sell your product and achieve long-term sustainable growth and profitability. Include in this section a general description of what percentage of your budget will you allocate to the market strategy. Consider whether this is reasonable given market demands and what your competitors are doing. Also include a description of your sales and distribution plan: where and how are you going to sell your product (in retail stores, open markets, direct buyer networking, trade shows, kiosks, catalogs, internationally, regionally, online through a shopping website)? List the promotional/advertising sources you will use, including personal contacts, import/export agent or broker, internet, flyers, brochures, newspapers, other publications, TV/radio, U.S. government, trade associations, catalogs, trade shows, or other.
- *Sales incentives/promotions:* If you are a new company or have a new product, decide how consumers will learn about your product or service. In many cases, entrepreneurs give out free samples or discount coupons on their first order. It may be a good idea to hold an open house or throw a small party for potential customers at your offices. Another idea is to create an attractive, informative web site.
- *Packaging:* Packaging is often used as a strategic marketing tool because it is the first thing consumers see. For businesses where competitors have similar products, packaging helps set the products apart. Some things to consider in packaging are the quality, durability, aesthetic appeal, and special requirements for certain products (for example agriculture).
- *Labeling:* Labeling is equally important, especially if your clientele is international. Countries such as the United States have labeling requirements for products, especially for agricultural goods. As a general rule, the label should be creative and include your company contact information in addition to the product name. Other important information may be the size, weight, certification, ingredients, expiration date, care and handling instructions, and country of origin. Also, many businesses have both a label and a tag. Since the tag is usually larger, you will be able to put more information on the tag and be more creative with color and marketing logos.
- *Pricing:* Explain the price strategy you'll use to maintain your competitive position. You have a few options. After analyzing your competition, decide if your product will be priced significantly above, below, or close to prices of your competitors. Remember that your price strategy is not only about selecting actual numbers. You need to justify your prices given how your product's competitiveness and quality meet industry standards. Your pricing structure should also be broken out by volume. In other words, the larger the order, the lower your unit price should be. It is your decision, again based on your analysis, to determine price brackets. The following pricing data will help you determine your position:

Cost of producing or acquiring the item:
Costs of running the business (overhead):
Percentage markup:
Suggested Prices:
 Competitive
 Below Competition
 Premium Price

Are your prices in line with your image?
Does your pricing strategy cover costs and allow a reasonable profit?

One option is to conduct a break-even analysis. This might be especially appropriate if you have a new business or product. The break-even analysis predicts how much the you will need to sell in terms of both units and money to reach the point where sales cover all the expenses. After the break-even point, the company will start to make a profit. A break-even analysis also helps established businesses identify ways to lower the break-even point to increase profits. Now, a break-even analysis is easy if you have an actual product that you can count. But how do you do a break-even analysis if you are selling a service? One way is to use your per hour (or daily) rate as one unit. The analysis will then tell you how many hours or days you will need to work at a certain rate to break even. (A sample break-even analysis may be found in chapter 9.)

- *Branding:* Brand marketing involves creating a name and reputation for your company and product by using logos and phrases that will make customers automatically recognize your product. After time, the label, advertising, and logo will represent the product's quality. Examples of brand marketing in the U.S. are the red and white can and writing for Coca-Cola and the golden arches of McDonald's. Building a name for your business is not cheap and may require high investment in advertising and communications. While branding is not mandatory for a successful business, it is something to think about, especially if your competitors are pursuing brand strategies.
- *Advertising/public relations:* An important part of the marketing strategy is how consumers find out about your product. What kind of advertising do you need and what can you afford at the beginning? Options may include word of mouth, newspaper announcements, flyers, sponsorships, radio spots, TV commercials, website or internet, and email networking. Participating in events such as tradeshow will also help increase your product's recognition. Accepting interviews, speaking at conferences, and sending out press releases on your company's community development will help keep your company in the spotlight. Advertising and sales promotions and incentives go together. As you advertise, you may put a discount coupon in the newspaper or on your website.
- *Networking:* Networking is a powerful marketing tool and if used correctly can be extremely effective for minimal cost. Networking should be a top priority for entrepreneurs, and they should be networking at all levels. Always have a stack of business cards in your purse ready to pull out. You never know when you might meet a potential customer or strategic partner. Networking venues to consider are women's business associations, chambers of commerce, and specific industry

member associations. Attending government briefings and meetings with the country's investment promotion center and ministry of trade are also beneficial—not only for them to know who you are, but also for you to know the latest events and happenings.

- *Trade shows:* Participating in trade shows is another great networking opportunity. However, before attending or displaying, it is imperative to be well prepared. You should be able to give a smooth three-minute sales pitch of your product as well as be able to answer all technical questions. Preparation for trade shows can take months, so it is a good idea to start early and brainstorm anticipated customer questions. If you are displaying, you will need to have fully developed your product and started your market research. Since direct sales often result from trade shows, be sure that you are aware of your production capacity and can meet the average customer order size.
- *Shipping and logistics:* One of the major issues with regional and international trade is shipping and handling logistics. It is important to not only understand how this process works, but also what are your best options—air, road, marine? Some of this will depend on your customer's lead time and how soon he needs his order, but price may be an issue as well. If you are shipping internationally and do not have a full container load, look into container consolidation. Sharing a container with another company may save you and the buyer money. When shipping agricultural goods, it is critical that the packaging be adequate to preserve the goods and avoid damage in transit.
- *Financing strategy:* Financing options, which will be discussed in a later chapter, are extremely important. Your financing strategy gives you and potential lenders and investors a snapshot of your company's financial stability. Included in the financing strategy are both historical and projected financials. Projected income (profit and loss) statements are valuable as both a planning and a management tool to help control business operations. It enables the owner/manager to have an idea of the income generated each month and for the business year, based on reasonable predictions of monthly sales, costs, and expenses. At the top of each financial statement, fill in the legal name of business, the type of statement, and the time period. Financial documents show past, current, and projected finances. The following are the major documents you should include in your business plan. The work is much easier if done in the order presented here, because they build on each other, utilizing information from the ones previously developed. Your financial strategy should include the following:
 - A summary of financial needs (only necessary if you are seeking financing): Explain why you are applying for financing and how much capital you are seeking.
 - Pro forma cash flow statement (budget): Shows cash inflow and outflow over a period of time. This is used for internal planning and is of prime interest to the lender as it shows how you intend to repay your loan. Cash flow statements show both *how much* and *when* cash must flow in and out of your business.

- Three-year income projection: A pro forma profit and loss (income) statement shows projections for your company for the next three years. Use the revenue and expense totals from the pro forma cash flow statement for the 1st year's figures and project for the next two years according to expected economic and industry trends.
- Projected balance statement: Projects the company's assets, liabilities, and net worth through the end of the next fiscal year.
- Break-even analysis: Expresses in total dollars or revenue the point at which a company's expenses exactly match the sales or service volume. The analysis can be done either mathematically or graphically. Revenue and expense figures are drawn from the three-year income projection.
- Profit and loss statement (historical income statement): Shows your financial activity over a period of time, such as monthly or annually. This illustrates what has happened in your business and is an excellent assessment tool. Your ledger is closed, balanced, and the revenue and expense totals are transferred to this statement.
- Balance sheet (historical): Shows your financial status at a fixed date in time. It is a snapshot of your business' financial performance at a particular moment and will show whether your financial position is strong or weak. It is usually done at the close of an accounting period. The balance sheet contains the company's assets, liabilities, and net worth.
- Financial statement analysis: This analysis uses both your income and balance statements to make comparisons. Analyses you may include are
 - liquidity analysis (net working capital, current ratio, quick ratio)
 - profitability analysis (gross profit margin, operating profit margin, net profit margin)
 - debt ratios (debt to assets, debt to equity)
 - measures of investment (return on investment)
 - vertical financial statement analysis (shows relationship of components in a single financial statement)
 - horizontal financial statement analysis (percentage analysis of the increases and decreases in the items on comparative financial statement)
- Business financial history: Summarizes your company's financial information from start to present. Your business financial history is often used as your loan application. If you have completed the rest of the financial section, you should have all of the information you need to transfer to this document.
- Supporting documents: At the end of the plan, it is always a good idea to attach supporting documents. You may want to include
 - personal resumes of key personnel
 - owner's financial statements
 - credit reports
 - leases, mortgages, and purchase agreements

- letters of reference
- contracts
- legal documents associated with your legal structure, proprietary rights, insurance
- any supporting documents not included in the main body such as cost analyses, advertising rates, competition analysis, shipping information

4. Business Ownership and Types/Legal Forms

There are several ways to set up your business. Your choices determine

- how much startup capital you require
- the cost and procedures for registering the business
- the financial risk involved
- the amount of taxes you will pay
- whether you can be sued for unpaid business debts
- how decisions are made
- what happens in your death or absence

Since there is no “correct” form for an organization to take, you must examine the pros and cons of each and decide which is best for you. We shall look at six organization structures for a business in Sierra Leone:

- Sole Proprietorship
- Partnership
- Private Limited Company
- Public Company
- Company Limited by Guarantees
- Unlimited Company

Sole proprietorship

The sole proprietorship, the most common type of business, is generally an unincorporated business owned and operated by one person.

If you are operating a business under your own name, you can register it formally (see next chapter’s section on sole proprietorship) or not. The provision that makes it unnecessary for you to register this type of business is designed to reduce barriers to micro and small enterprises. However, whether registered or not, but you must pay taxes.

If you want to run a business under a name other than your own, you must register the name at the Registrar General’s Department (see next chapter).

Below are some characteristics of sole proprietorship.

Advantages	Disadvantages
1. Easy to start 2. No requirement to submit audited accounts 3. Owner takes all profit, if any 4. No formal procedures are required to start except that licenses are needed for certain types of business activity. 5. Owner has management freedom 5. Few legal restrictions 6. Easy to dissolve 7. Owner, rather than business, pays tax	1. Unlimited liability 2. Difficult to raise capital 3. Difficult to maintain overall direction of the business 4. Death of the owner terminates life of business unless succession plan is in place

Partnership

A partnership is an association of two or more people who carry on business as co-owners.

Advantages	Disadvantages
1. Increased capital, permitting the business to expand more rapidly, than is possible by the ploughing back of profits earned.	1. They still have unlimited liability for the debts of the business. Since they are also liable for one another's actions, an unwise or uncontrolled act by one partner can seriously affect the other or others.
2. The responsibility of control no longer rest with one person. This makes possible holidays and free weekends, and reduces the worry the sole trader experiences in times of ill health.	2. The partnership is adversely affected by the reaction of a partner, whose share may be with drawn to pay both the inheritance tax and the beneficiaries. It is therefore desirable for each partner to take out life assurance to provide a lump sum benefit in the exact of the other partner's death. The lump sum will be for the benefit of the surviving partner, who uses it to pay up the beneficiaries and so on and then becomes owner of the business in his/her own right.
3. Wider experience is brought to the firm, and some degree of specialization is possible this is particularly true of professional partnership. A physician and a surgeon may form a partnership, or lawyers with experience in different fields – divorce, criminal law, commercial law, may combine to offer a more comprehensive service to the public.	
4. The affairs of the business are still private.	

Private limited company

A private Limited Company is a company limited by shares. This is a legal entity with at least two and not more than 50 shareholders.

Advantages	Disadvantages
1. Limited liability, ease of organization, combined knowledge and skill, quick decisionmaking	1. Restrict the right to transfer shares
2. Capital can be found from several sources	2. Prohibit any invitation to the public to subscribe for any of the company's shares or debentures.
3. Privacy to some extent on affairs	3. Change in objectives of owners can create friction
4. Death of shareholders does not affect the firm.	4. All partners responsible for actions of all others

Public Company

This is a legal entity with publicity offered and traded shares of at least seven (7) founding members registered to form a public company. Since a Public Company offers shares to the Public there is no limit to its membership.

Advantages	Disadvantages
1. Limited liability, ease of organization, combined knowledge and skill, quick decisionmaking	1. Full public knowledge of the company's affairs is required.
2. Very large capital can be collected and quickly.	2. Expense to obtain and maintain, professional advisors, such as lawyers and accountants, must be involved in the "going public process" in order for the company to avoid costly errors.
3. Death of shareholders does not affect the firm.	3. Investor relations; a company's share price can become too much of a focal point. This can be a distraction for employees owning shares or options and can result in management decisions being made to focus on the short term to boost the share price rather than to strengthen the company in the long term.

Company limited by guarantee

This is a legal entity without share capital formed for non-profit purposes usually by organizations such as churches, charity, commerce, science, and arts. The profits (if any) are applied to promote its objective and to prohibit the payment of any dividends to members. Members must sign a memorandum and Article of Association having a specified amount for which they guarantee to contribute in case of bankruptcy.

Unlimited company

A company not having any limit in the liability of its members. In other words it is a legal entity in which the shareholders are liable for all debts within their personal asset.

5. Business Registration Procedures

This chapter provides information on registering your business. We encourage you to first read chapter 4 to help you determine which type of business works best for you: sole proprietorship, partnership, company, or cooperative. For your convenience, the most common forms needed to register your business are included at the end of this manual.

Registering a sole proprietorship and a partnership

Businesses that are not legal entities such as partnership and sole proprietorship have to register their business name under the Business Name Act of Chapter 257. Below outlines the following steps necessary to register the business name.

1. Every proprietor or firm must furnish the Registrar General's office with the name of the Business by completing the business name registration form. This costs Le 1,000. Once submitted, an officer in the Registrar-General's Office will confirm that the name has not previously been registered. The search fee is Le 5,000. It should be noted that no company shall be registered by a name which is identical with that which is already registered or closely resembles an already registered name. The exception is when a company in existence is in the process of being dissolved and signifies its consent in writing that the name cannot be given to the applicant.
2. After the business name has been cleared or entered, a business name registration form must be purchased which should be completed and submitted. The fee associated with the name registration is Le 30,000. The completed Business name registration form submitted should highlight the following information:
 - The name of the Business the proprietor or firm registered.
 - The general nature of the Business
 - The principal place of the Business
 - All other places where business will be carried out.
 - The permanent residence of the proprietor or partners as well as any other business occupation of the proprietor or partners in the business.
 - Date of commencement of the Business.
3. An officer at the Registrar General's office will accept the proprietor or firm's application and determine whether the proprietor or firm has fulfilled the business name act cap 257.
4. Following the registration of the name, a Business registration form A must be purchased at the Administrator and Registrar-General's office for Le2000.
5. After the Business Registration Form A has been purchased, two photocopies should be made and taken to your income tax district office. This will enable you to register and license your business.
6. At the income tax district office, you will be interviewed by the tax official to determine your chargeable business income and turnover for a period of 12 months. The tax computed is payable in four equal quarterly installments, within the year of your account.
7. Your Business 'Registration Application form A' is submitted for a written statement and is then processed for a fee of Le 2000.

8. The business Registration form A' and the statement should then be submitted to the office of the Administrator and Registrar General for registration and licensing of the business. (The schedule of tax levied according to the Sierra Leone Tax System is indicated on page 12/ 13 under cost involved)
9. Upon payment of the prescribed fees (Taxes) the Registrar General shall issue a certificate of Registration and certificate of licence (See page 12/13 cost involved) A Business name index Register is established which contain the following particulars.
 - Name of the Business
 - Serial of the Business
 - Date of Registration
 - Address of the Business

Commencement of business

Before commencing business, further information on the company must be provided to the Registrar General: the particulars of the company and a declaration of compliance.

After the name registration, the following documents must be submitted to the Registrar General:

- Memorandum and articles of Association Strategies
- The objects of the company. If the company is a company limited by shares, then the company must identify, the amount of share capital with which the company proposes to be registered as well as its division into shares of a fixed amount. For example, 1,000,000.00 divided into 1,000,000.00 shares of a nominal amount of Le1.00 each.
- Printed articles of Association outlining the transfer of shares in the company, of the schedule of general meetings, and the directors' management ability to delegate their powers.
- The memorandum must be signed by seven persons or at least two if the company is to be a private company and the same persons must sign the articles.
- Other documents delivered with the memorandum must include the following.
 - Notice of Registered Address
 - Notice of Secretary
 - Person to whom notice may be served
 - A statutory declaration by a Barrister or Solicitor of the Supreme Court engaged in the Formation of the company or by a person named in the article as a Director or Secretary of the company in compliance with the requirement of the Act in respect of Registration.

An officer in the Department of the Registrar General will examine the document and if satisfied will deliver the documents to the registrar general who will also examine them. If satisfied that the applicant's memorandum has fulfilled the company requirements. The officer will register the company.

All fees specified in the schedules shall be paid to the Registrar General.

Upon payment, a certificate typed in duplicate and signed by the Registrar General shall certify under his hands that the company is limited by shares or guarantee.

A certificate of incorporation given by the Registrar in respect of any association shall be conclusive evidence that all the requirements of this act in respect of Registration and of matters precedent and incidental there to have been complied with and that the Association is a company authorized to be registered and fully registered under this Act.

The average duration for activities carried out at the Registrar-General's office is as follows:

- Business names Registration between 1 – 2 days.
- Business Registration and License between 1 to 3 days.
- Renewal of Licence 1 to 3 days.

After the business receives its registration, it is ready to go. However, please note that some industries, such as mining and artisanal fishing, require specific licenses before operation. Please contact the following government agencies for more information about their required licenses.

1)-Mining
Ministry of Mineral resources
Youyi Building
Freetown

2)-Fisheries
Department of fisheries
Ministry of Agriculture
Youyi Building
Freetown.

3)-Forestry
Department of forestry
Ministry of Agriculture
Youyi Building
Freetown.

Costs

Sierra Leone has tiered cost structure depending on the level of sales a business generates. Annual turnover levels are divided into three classes, see below.

Your generated annual sales will determine your class category. For example, Maggie's Mangoes, Inc. has annual sales of Le325,000, the business is in Class B.

CLASS A- Le1.00 to Le250, 000.00
CLASS B – Le250, 000-Le500, 000.00
CLASS C – Le Above –Le 500,000

The below tables outline the costs of registering your business in Sierra Leone.

Sole Proprietor	Business Registration
Class A	Le20, 000.00
Class B	Le40, 000.00
Class C	Le60, 000.00

Partnership	Business Registration
Class A	Le50, 000.00
Class B	Le75, 000.00
Class C	Le120, 000.00

Companies	Business Registration
Class A	Le50, 000.00
Class B	Le75, 000.00
Class C	Le120, 000.00

6. Taxes and Duties

Paying taxes and duties is one of the legal responsibilities entrepreneurs have to fulfill. Other legal responsibilities include getting licenses and permits, respecting regulations concerning employees, respecting contractual agreements and, in some instances, insuring your business.

The tax laws and policies may change every year based on the government budget provision and fiscal policy. It is therefore impossible for this manual to summarize all the tax laws that will prevail permanently. This chapter rather serves as a guide to the current taxes and duties, in particular the common ones applicable to the four types of businesses discussed in the manual.

A business pays taxes according to its declared expected turnover and reported income.

The rate of tax applicable is as follows: If the chargeable income is as follows:

Income	Tax
Not over Le 1,000,000	Nil
Le 1,000,001 to Le 3,000,000	20%
Le 3,000,01 to Le 5,000,000	25%
Le 5,000,001 to Le 7,500,000	30%
Over Le 7,500,000	35%

Import duties

Some duties or taxes are paid on imported goods and services. The Sierra Leone Customs Authority is the government agency responsible for collection of all import duties. You are required to pay duties when your imported goods arrive at the port and are undergoing clearance. The rates change from time to time according to the government's fiscal policy. We will first discuss current policy and rates for import duties and follow with explanation of the proposed Common External Tariff.

There are four types of taxes that may be applicable when importing goods. These are the actual duty, the sales tax, the 0.5% ECOWAS Levy on goods manufactured outside ECOWAS and the 3% withholding income tax on goods for resale.

Below are the rates for frequently imported commodities (as of March 2004):

No.	Commodity	Duty Band	Sales Tax	With-Holding Income Tax
1.	Assorted Juices	30%	17.50%	3%
2.	Baby Food	15%	17.50%	3%
3.	Beer*	30%	17.50%	3%
4.	Bicycles	20%	17.50%	3%
5.	Biscuits	20%	17.50%	3%
6.	Butter	20%	17.50%	3%
7.	C.I. Sheet	5%	17.50%	3%
8.	Cabbage	20%	17.50%	3%
9.	Cars 0-4 years	5%	17.50%	3%
10.	Cars 5-9 years	20%	17.50%	3%
11.	Cars 10 years and over	30%	17.50%	3%

12.	Caustic Soda	5%	17.50%	3%
13.	Cement	20%	17.50%	3%
14.	Cement Clinker	NIL	17.50%	3%
15.	Cheese	20%	17.50%	3%
16.	Chicken	20%	17.50%	3%
17.	Chocolate	20%	17.50%	3%
18.	Cigarette	25%	17.50%	3%
19.	Cocoa Powder	20%	17.50%	3%
20.	Coffee	20%	17.50%	3%
21.	Coil	5%	17.50%	3%
22.	Computers	5%	17.50%	3%
23.	Couscous	20%	17.50%	3%
24.	Duplicating Paper	20%	17.50%	3%
25.	Eggs	20%	17.50%	3%
26.	Flour	20%	17.50%	3%
27.	Freezers	30%	17.50%	3%
28.	Generators	5%	17.50%	3%
29.	Groundnut Oil	20%	17.50%	3%
30.	Hard Board	20%	17.50%	3%
31.	Iron rods	5%	17.50%	3%
32.	Jam	30%	17.50%	3%
33.	Lubricating Oil	20%	17.50%	3%
34.	Luncheon Meat	20%	17.50%	3%
35.	Maggie	20%	17.50%	3%
36.	Margarine	20%	17.50%	3%
37.	Mayonnaise	30%	17.50%	3%
38.	Milk Powder x 25kg	20%	17.50%	3%
39.	Monosodium Glumate	5%	17.50%	3%
40.	Musical Set	30%	17.50%	3%
41.	Non Alcoholic Conc. Cordials	30%	17.50%	3%
42.	Onions	20%	17.50%	3%
45.	Paracetamol	20%	17.50%	3%
46.	Perfumery/Cosmetics	30%	17.50%	3%
47.	Pharmaceuticals other than Paracetamol	5%	17.50%	3%
48.	Plant & Machinery in General	5%	17.50%	3%
49.	Potatoes	20%	17.50%	3%
50.	Radio Cassette Recorder	30%	17.50%	3%
51.	Refrigerators	30%	17.50%	3%
52.	Rice	15%	17.50%	3%
53.	Rock Salt	5%	17.50%	3%
54.	Rum, Whisky, Brandy, Wine* etc	30%	17.50%	3%
55.	Sardine	20%	17.50%	3%
56.	Shoes	20%	17.50%	3%
57.	Slippers	20%	17.50%	3%
58.	Soft Drinks	30%	17.50%	3%
59.	Stout*	20%	17.50%	3%
60.	Sugar	20%	17.50%	3%
61.	Table Salt	20%	17.50%	3%
62.	Tea	20%	17.50%	3%
63.	Telecommunication Equipment	5%	17.50%	3%
64.	Television	30%	17.50%	3%
65.	Textiles	20%	17.50%	3%
66.	Tiles	20%	17.50%	3%
67.	Tobacco	20%	17.50%	3%

68.	Toilet Fittings	20%	17.50%	3%
69.	Tomatoe Ketchup	30%	17.50%	3%
70.	Tomatoe Paste	20%	17.50%	3%
71.	Toothpaste	30%	17.50%	3%
72.	Trotters (Pigs feet)	20%	17.50%	3%
73.	Tyres	20%	17.50%	3%
74.	Used clothing (junks)	30%	17.50%	3%
75.	Vehicle Spares	5%	17.50%	3%
76.	Vegetable Cooking Oil	20%	17.50%	3%
77.	Video Cassette Recorder	30%	17.50%	3%

Knowing the tariff schedules is not enough; it is necessary that you understand how to compute the total tariff per product. This will help you price your product and account for the tariffs in the sales price. Remember, this may affect your profit margin if you do not account for the tariffs appropriately. Below is an example of how to calculate duty, sales tax and withholding income tax:

An entrepreneur is importing potatoes with the CIF Value of Le 100,000,000.00 from a Non-ECOWAS country, as at 31st January 2004.

Duty = 20% (CIF Value)
= 20% (Le 100,000,000.00) = Le 20,000,000.00

Sales Tax = 17.5% (CIF Value + Duty)
= 17.5% (Le 100,000,000.00 + Le 20,000,000.00)
= 17.5% (Le 120,000,000.00) = Le 21,000,000.00

ECOWAS Fee = 0.5% (CIF Value)
= 0.5% (Le 100,000,000.00) = Le 500,000.00

Withholding
Income Tax = 3% (CIF Value)
= 3% (Le 100,000,000.00) = Le 3,000,000.00

TOTAL = Duty + Sales Tax + ECOWAS Fee + Withholding
Income Tax
= Le (20,000,000 + 21,000,000 + 500,000 + 300,000)
= Le 44,500,000.00

The Ecowas Common External Tariff (CET)

Sierra Leone is one of six West African countries currently in the process of adopting the ECOWAS Common External Tariff. The CET is already being applied within the West African Economic and Monetary Union (WAEMU) zone, bringing together all the French-speaking countries (except Guinea). The CET means that all goods entering the customs territory of any ECOWAS country will be assessed the same customs duty. The ECOWAS CET provides for a four-band tariff regime as follows:

Category	Products	Duty rate (%)
0	Social products	0
1	Raw materials, equipment, inputs	5
2	Intermediate goods	10
3	Finished goods	20

When the CET adoption process is completed (scheduled for the end of 2007), there will be uniform tariffs on all imports into West Africa, irrespective of the port of entry. Sierra Leone is already implementing the CET. For those products whose tariffs are different from the CET rates, Sierra Leone will do any of three things: (1) replace the tariffs of some products with the CET rates immediately; (2) request temporary exceptions on certain products, in which case the current tariffs of such products will be progressively replaced by the CET rates; or (3) request permanent exceptions on certain products, in which case the current tariffs for such products will continue to be applied indefinitely. For more information on the CET, please visit www.ecotrade.ws.

7. Utilities

Electricity

The National Power Authority (NPA) is responsible for the distribution of electricity in Sierra Leone.

Application procedure

Businesses apply by submitting a registration form to the NPA. The registration fee is Le 3000 and most businesses are required to pay a contractor fee of Le 30,000. In addition, businesses must open a commercial account costing Le 90,000.

Below outlines the consumption rates per unit (kWh). The rates vary depending on if it is residential or commercial and please note that all have minimum requirements.

	Units Consumed	Cost per Unit (Le)	Units Consumed	Cost per Unit (Le)	Units Consumed	Cost per Unit (Le)	Minimum required (Le)
Residential	0-30	287	31-150	410	Above 150	545	8,600
Commercial	0-30	501	31-150	601	Above 150	659	15,025

Consumers are billed monthly and invoices are often issued at the beginning of the next month. Consumers are required to settle bills monthly. Charges are based on meter readings, i.e., actual consumption. There may, however, be an exceptional case whereby a meter has not been installed in the business premises for one reason or the other, in which case a flat rate is charged based on estimated consumption.

Telecommunications

Landline telephones

The government agency responsible for landlines is Sierratel located at Tower Hill in Freetown.

Application procedure

Business owners are required to apply and complete a form requesting telephone services (business/residential) giving his/her particulars, including site location and desired services: fax, phone, pabx, and/or Internet. Sierratel then carries out a survey to enable estimation of materials required and distribution point. Charges will be based on the area and the length of cable required from the distribution point; there is no fixed charge.

Based on the assessment, a bill is sent and installation will begin after Sierratel receives payment. While, the application process is supposed to take about two weeks, it can take months without proper follow-up and persistence.

Mobile telephone services

There are currently four cellular phone service providers, Africell., MILLICOM (SL) Ltd., COMIUM, and CELLTEL in Sierra Leone.

SIM Cards can be purchased for minutes and installed in less than 30 minutes.

Africell
SIM Pack Le 10,000

Recharge Cards

Unit	Cost (Le)	Validity (days)
200	6,000	15
400	12,000	25
900	27,000	45
1,800	54,000	
3,600	108,000	75
11,000	330,000	90

COMIUM
SIM Pack Le 15,000

Recharge Cards

Unit	Cost (Le)	Validity (days)
300	9,000	15
500	15,000	30
1,000	30,000	45
2,000	60,000	60
5,000	150,000	75
10,000	300,000	90

Millicom
SIM Pack Le 15,000

Recharge Cards

Cost	Validity
5,000	95
10,000	105
25,000	120
150,000	140

Water

The Guma Valley Water Company Ltd is responsible for production and distribution of water in most urban areas and towns. To be connected for water service, a business must follow the following procedures:

- Businesses need to apply by completing an application form which can be obtained on the 4th floor of the Guma Valley Water Company; There is no cost associated with the registration form.
- The application is sent to the Guma Works yard for a technical site inspection. Once completed, a list of required materials will be entered on the application form.
- Guma Valley costs out the materials and a bill is then sent to the applicant.
- If necessary, Guma Valley will contact the Sierra Leone Road Authority (SLRA) to confirm if certain roads needed to be closed.
- SLRA will submit a bill to Guma Valley and once paid, SLRA will grant approval.
- After the applicant pays all the fees, a Guma Valley technician will then initiate installation.

Water usage is charged monthly at a per gallon rate. The table below outlines the usage per gallon ratio.

Usage (gallons)	Charge per gallon (Le)
0 – 2,000	Le 0.70
2001 – 3000	Le 1.00
3001 – 5000	Le 1.50
5001 – 6000	Le 2.00
6001 and over	Le 2.50

For some businesses a monthly metered water usage charge-flat rate of Le 4.00 per gallon is applied.

Energy-related surcharges may also apply:

Pumping station	Surcharge per gallons	Charge per gallon
Spur road	Le 0.50	Wilberforce, spur loop, upper tengbeh town and signal hill road
Tower hill	Le 0.25	Kortright, Mount Aureol Terrace, Tower hill offices, Parliament and British council
O.A.U Village	Le 1.00	O.A.U.Village
Hill station	Le 0.30	Hill station
Regent	Le 0.25	Glouster, Fourah bay college, Leicester and Regent
Africanus Road	Le 0.25	Kissy village

Internet

Most businesses use the Internet and cybercafés to access online. The average price for internet use at a cybercafé is:

Time	Cost (Le)
15 minutes	2,000
30 minutes	3,000
1 hour	15,000
2 hours	10,000

8. Incorporating Human Resources into Your Business

Often in a small business, entrepreneurs have neither the time nor the resources to invest into a human resource department. However, hiring the right people for the job and managing a company's staff are perhaps just as important, if not more, than developing a competitive product. Regardless of the size of the business and its resources, there are simple systems a business can implement to manage its human resources.

Employment contract

You should be mindful that when you hire an employee that there is a contract between the worker and the business. You should determine beforehand the type of worker that you are hiring, whether continuous (full time), part-time, temporary, or casual. There should be a contract of employment spelling out the capacity under which the worker is employed:

1. Work conditions
 - hours of work
 - rest period
 - meal breaks
 - annual leave
 - occupational health and safety measures
2. Remuneration and the method of calculating the remuneration
3. Period of probation and conditions of probation
4. Termination
 - period of notice of termination
 - transfer
 - discipline
5. Grievance resolution procedures
6. Principles for matching remuneration with productivity
7. Specification of essential services within the establishment
8. Freedom of unionism
9. Rights and duties of both the employer and employee

The employee manual

An employee manual is an excellent way to give your employees guidance as to what is or is not allowable in the workplace. A manual outlines the company's policies and procedures and communicates the employer's expectations in a simple, easy-to-read form. Once hired, the employer should give the new employee a copy of the manual and have the employee acknowledge with a signed receipt his or her willingness to comply with the policies. Written

for everyone employed, an employee manual should include brief descriptions of the company's policies on

- work hours
- pay periods
- benefits (including bank holidays, vacation, and worker's compensation)
- work attire
- disciplinary actions
- an "at will" statement allowing either party to terminate the relationship at any time for any or no reason at all

It is sometimes useful to include a welcome statement, an anti-harassment policy, and an equal opportunity employer statement.

Hiring Staff

One of the entrepreneur's most valuable resources is staff. Once you have decided you need to hire someone, your first step is to write a job description. The job description specifies the requirements and qualifications needed to perform the position effectively. It also outlines the daily job responsibilities and the employer's expectations.

Once completed, the recruiting process can begin. The first step is to advertise through appropriate channels. This may include advertising in a newspaper or business journal, at universities, chambers of commerce, and other places where qualified candidates might be searching. It is always a good idea to offer the position internally to already employed staff: you may already have the perfect person for the job working for you. Hiring from within will save much time and money. While it is common for entrepreneurs to look to family and friends to fill positions, keep in mind that the person needs to be qualified for the position—if he or she is not qualified, this will be more problematic in the long term.

9. Managing Money

“Balance sheets, income statements, and statement of cash flows. I hear these terms all the time, but what do they mean?” Managing your money is critical to the success of your business. We all want to know where our money goes, how we spend it, and whether what we sell will cover our costs. To do these things requires a basic understanding of accounting. By following basic accounting guidelines, you can keep an updated chart of accounts and organized ledgers that will reveal how well your business is doing and guide you as you work to bring your business to the next level. After the general ledgers are in order, you can then start interpreting balance sheets, income statements, and cash flows. This will let you compare your past and present financial performances to help you establish financial goals for the future. While you may have an accounting firm to do your books, understanding your finances will help you and your management keep your business on track. Your analyses will help you answer important questions such as What do I need to do in order to increase my profits by 5 percent, 10 percent, or 20 percent? How much do I need to invest to tap into a new export market?

To start, you should first define and then list all of the accounts that will go in the general ledger. Each account should have a separate reference number. For example, your expense account could be 1000 and your asset account 1010. While not necessary in the beginning, many accountants advise spacing out reference numbers so that as your company grows you can add more accounts and keep the numbers in order. A sample chart of accounts for a product is outlined below.

Asset accounts

Current assets

10000	Petty cash
11000	Accounts receivable
12000	Supplies inventory
12200	Raw materials inventory
13000	Finished product inventory

Fixed assets

14000	Equipment
15000	Office building
15500	Furniture
16000	Land
17000	Depreciation

Liability accounts

18000	Accounts payable
19000	Wages payable
20000	Taxes payable
21000	Other liabilities

Revenue accounts

22000	Sales from product
23000	Interest income

Expense accounts

24000	Advertising
25000	Bank fees
26000	Employee benefits
27000	Travel

Costs of goods sold accounts

28000	Costs for product
29000	Direct labor
30000	Electricity
31000	Miscellaneous costs

When you are just starting out, you may use a simpler chart of accounts. This is fine, but keep in mind that as you start growing and become more established, you will want to add details to your chart to get a more exact picture of your general ledgers.

After you have an idea of how you are going to chart your accounts, you will have a general ledger for each referenced account. There are many software packages that can do the general ledger for you, but doing it yourself is not difficult. While the general ledger does not include every single accounting entry in a given period, it does summarize all transactions.

If your business is small and cash-based, you can set up much of your general ledger out of your checkbook. The checkbook includes several pieces of information vital to the general ledger—cumulative cash balance; and date, amount, and purpose of the entry. However, if you plan to sell and buy on account as most businesses do, a cash log or checkbook alone will not suffice as a log for general ledger transactions. Even for cash-based businesses, a checkbook cannot be the sole source for establishing a balance sheet.

An important component of any general ledger is source documents. Two examples of source documents are copies of invoices to customers and from suppliers. Source documents are critical, because they provide an “audit trail” that you or an accountant can use to go back and study financial transactions made in your business. For instance, a customer might claim that he never received an invoice from you, but your source document (your copy of the customer’s invoice) will prove otherwise. Your source documents are also needed by your accountant at tax time. Other examples of source documents include canceled checks, utility bills, payroll tax records, and loan statements.

All general ledger entries are double entries: for every financial transaction in your business, the money (or commitment to pay) goes from one place to arrive at another. For instance, when you write your payroll checks, the money flows out of your payroll account (cash) into the hands of your employees (expense). When you sell goods on account, you record a sale (income) but must have a journal entry to make sure you collect that account later (account receivable).

The system used in recording entries on a general ledger is called a system of debits and credits. In fact, if you have even a basic understanding of debits and credits, you will be well on your way to understanding your entire accounting system.

As outlined above, for every debit there should be an equal and offsetting credit. When the debits and credits are not equal, then your books don't balance. A key advantage of any automated bookkeeping system is that it will police your debit-and-credit entries as they are made, making it far more difficult not to balance.

All debits and credits either increase or decrease an account balance. These basic relationships are summarized as follows:

Account Type	Debit	Credit
Assets	Increases	Decreases
Liability	Decreases	Increases
Stockholder's Equity	Decreases	Increases
Income	Decreases	Increases
Expense	Increases	Decreases

In a general ledger, debits always go on the left and credits always go on the right.

Most general ledger entries follow this form:

Date	Account Name	Debit	Credit
Date	<i>Name of account debited</i>	Amount	
	<i>Name of account credited</i>		Amount
	Short description of transaction (optional)		

For example:

12/30/04	Cash	200,000	
	Capital		200000
	*Owner contributes Le 200,000 to business		
12/31/04	Mango Juice Machine	600,000	
	Accounts Payable		600,000
	*Bought juice machine on credit with store with terms of 30 days		

Once you understand general ledgers, the next step is to familiarize yourself with the three primary financial statements: the *balance sheet*, the *income statement*, and the *statement of cash flows*. Used together in an analysis, they paint an accurate picture of your business's financial status and where it is headed in the near future.

Balance sheet

The balance sheet is a snapshot of your company's resources owned (assets) and debts (liabilities and owners' or shareholders' equity) at a particular point in time, often at the end of an accounting period such as a quarter or a year. The balance sheet helps a small business owner quickly get a handle on the financial strength of the business: Is the business in a

position to expand? Can the business easily handle the normal financial ups and downs of revenue and expenses? Should the business take steps to increase its cash reserves? Balance sheets, along with income statements, are also a basic element of the financial reporting required by potential lenders such as banks, investors, or vendors considering how much credit to grant the firm.

In the balance sheet, the following formula always holds true:

$$\text{Assets} = \text{Liabilities} + \text{Owner's equity}$$

Assets are the business's possessions—items with actual values.² Assets are either current or long-term, reflecting how easily each can be liquidated. *Current assets* can be converted into cash within one calendar year and include cash, checking accounts, and accounts receivables. *Long-term* or *fixed assets* include land, buildings, office equipment, machinery, and vehicles. With the exception of land, most long-term fixed assets need to be depreciated.

All debts and obligations owed by the business to outside creditors, vendors, or banks that are payable within one year are considered *liabilities*. Liabilities also tend to be divided into short-term and long-term. *Short-term liabilities* are accounts payable (money owed to creditors, suppliers, and vendors), bank notes, mortgage obligations, vehicle payments, and accrued payroll. *Long-term liabilities* are debt obligations due beyond one year, such as extended bank loans and bond repayments.

Shareholder or owner equity is also categorized as a liability. Shareholders (or stockholders), own a corporation based on their holdings. They own an interest in the corporation through investment rather than specific corporate property. After all business obligations are met, the shareholders' equity is the remaining value (net worth) of a business. This generally reflects the amount of capital the owners have invested and any profits the company has generated. Profits reinvested into the company are called *retained earnings*. Shareholders of a company are analogous to owners of a limited liability company (LLC), who are called members.

² Some company assets are unrecorded, such as employees. While employees are valuable resources and clearly contribute to the company's profitability, it is difficult to objectively measure their value.

Example of Balance Sheet

Everything Mango, Inc.
Balance Sheet ending December 31, 2004

ASSETS	2003	2004
<i>Current assets</i>		
Cash/cash equivalents	Le 100,000	Le 100,000
Accounts receivables	350,000	30,000
Inventory	<u>250,000</u>	<u>200,000</u>
Total current assets	700,000	600,000
<i>Fixed Assets</i>		
Factory and machinery	200,000	200,000
Less depreciation	(120,000)	(100,000)
Land	80,000	80,000
Goodwill/intangible assets	<u>20,000</u>	<u>70,000</u>
Total assets	Le 880,000	Le 850,000
LIABILITIES AND SHAREHOLDER'S EQUITY		
<i>Liabilities</i>		
Accounts payable	Le 200,000	Le 155,000
Accrued payroll	35,000	45,000
Taxes payable	60,000	50,000
Total liabilities	Le 295,000	Le 250,000
<i>Shareholder's equity</i>		
Owner's equity	Le 400,000	Le 400,000
Retained earnings	185,000	200,000
Total shareholder's equity	Le 585,000	Le 600,000
LIABILITIES AND SHAREHOLDER'S EQUITY		
	Le 880,000	Le 850,000

Income statement

The income statement (also known as profit and loss statement) shows a summary of a company's profit or loss over a period of time, usually a year. Small business owners can use these statements to find out what areas of their business are over or under budget. Items that may cause unexpected expenditures can be pinpointed. Income statements also track dramatic increases in product returns or cost of goods sold as a percentage of sales. The income statement identifies where the company spends the majority of its income and compares the company's performance with that of previous years. Most importantly, the income statement reveals if the business is profitable.

The income statement is divided into revenue and expenses. *Revenues* measure the inflow of new assets to the business; *expenses* measure the outflow or use of assets. As a result, the bottom line is *net income* means an increase in assets and owner's equity, whereas a *net loss*

means a decrease in assets and owner's equity. Simply put, if revenues exceed expenses, the business has earned income; if expenses exceed revenues, a loss has occurred.

Example of income statement

Everything Mango, Inc.
Income Statement 2003 and 2004

	2003	2004
Sales	Le 2,000,000	Le 2,900,000
<i>Less</i> cost of goods sold	<u>(750,000)</u>	<u>(880,000)</u>
Gross profit on sales	1,250,000	2,020,000
<i>Less</i> general operating expenses	(550,000)	(570,000)
<i>Less</i> depreciation	<u>(100,000)</u>	<u>(100,000)</u>
Operating income	600,000	1,350,000
Other income	<u>50,000</u>	<u>65,000</u>
Earnings before interest and taxes (EBIT)	650,000	1,415,000
<i>Less</i> interest expense	(80,000)	(80,000)
<i>Less</i> taxes	<u>(195,000)</u>	<u>(424,500)</u>
Net earnings (Income or Loss) (Available for dividends)	375,000	910,500
<i>Less</i> common dividends paid	n/a	n/a
Retained earnings	Le 375,000	Le 910,500

In the above income statement, it is important to understand what items fall under each category and to ensure that each category is complete. Below are the definitions of the categories:

Sales is the revenue generated by the business minus any refunds, rebates, discounts, or allowances.

Cost of goods sold (COGS) is the total costs directly associated with making or acquiring your products, including raw materials, packaging and labeling materials, and any internal expenses directly related to the manufacturing process.

Gross profit on sales (Sales – COGS). The gross profit on sales reveals the profitability of a company's core business. A company with a high gross profit has more money to pump into product development, marketing, or to pass on to investors. Investors usually monitor changes in gross profit percentages since these changes often indicate the causes of decreases or increases in a company's profitability. For instance, a decrease in gross profit could be

caused by industry price fluctuations that have forced the company to sell products at lower prices. It may also indicate poor management.

General operating expenses (general and administrative expenses [G&A]) are normal expenses incurred in the day-to-day operation of a business. Typical items in this category include sales or marketing expenses, salaries, product samples, advertising, staff travel, trade show and conference participation, research and development, equipment rental, rent, utilities (electricity, air conditioning, heating), and other overhead (telephone, office supplies, insurance, fax, photocopies).

Depreciation is the gradual loss in the value of equipment and/or other tangible assets over the course of its useful life. Usually, depreciation is a separate line item on the income statement. The simplest method to calculate depreciation is the straight line method. This is calculated by taking the purchase or acquisition price of an asset, subtracting the salvage value (the price you can expect to sell it on the current market), and dividing by the total productive years the asset can be reasonably expected to benefit the company. These remaining years are often referred to as the asset's "useful life" in accounting.

$$\text{Straight line depreciation} = \frac{\text{Asset's acquisition price} - \text{Salvage value}}{\text{Useful life}}$$

Operating income is a company's earnings from its core operations after deducting its cost of goods sold (COGS) and general operating expenses. The operating income does not include interest expenses, financing costs, or investment earnings from unrelated businesses or taxes. Operating income is particularly important, because it assesses whether the a company is fundamentally profitable. A simple calculation for operating income is

$$\text{Operating income} = \text{Gross profit} - \text{G\&A} - \text{Depreciation}$$

Other income is generated from business outside the normal scope of operational activity, such as leasing part of your building to another firm or foreign currency gains.

$$\text{Earnings before interest and taxes (EBIT)} = \text{Operating income} - \text{Other income.}$$

Net earnings (profit or loss): Perhaps the most important line item in the income statement, this is "the bottom line." Computed by subtracting taxes and interest paid from EBIT, net earnings or loss illustrate how well the business has done after it has paid all its obligations. In other words, did the company come out with a profit or a loss for that particular time period? Extremely important to investors, net earnings determine what funds are available to be distributed to shareholders or invested back into the company to promote growth (*retained earnings*).

Statement of cash flows

The statement of cash flows analyzes the company's liquidity and allows the owner to estimate future cash needs for operation, investment, and financing activities. This report shows the actual sources from where the business received cash, how the cash was used, and the changes in the cash balance over a period of time. Typical sources of cash include sales from operations, issuing stock, borrowing money, and selling assets, whereas uses of cash are when the business develops and markets products, reacquires stock, pays debt, buys assets, pays taxes, and pays out dividends. Broken out by operations, investment, and financing, the

cash flow statement describes all the changes in terms of their effect on cash that have occurred in the balance sheet for that period of time (usually the business's fiscal year). Many companies consolidate their statement of cash flows to show the changes from year to year.

Managing a company's cash flow should be a top priority. Companies stay in business not only because they are profitable, but because the owners effectively predict and manage how much cash they will need for the short and long term. Making a profit does not necessarily guarantee a business's longevity. In fact, more businesses fail for lack of cash flow than for their inability to turn a profit. Thus it is important to understand the difference between profit and cash-flow control. When a sale is made, revenue is generated. However, the actual payment may be deferred as a result of giving credit to the customer. At the same time, the business must pay its suppliers, staff, and lenders. As a result, a certain amount of cash needs to be available to keep the business afloat. When cash receipts lag behind cash payments, the company could easily experience a temporary cash shortage. For this reason, it is critical to forecast cash flows as well as project likely profits.

The cash flow statement reveals the differences between cash inflows and outflows for a given period. In financial analysis, a cumulative positive net cash flow over several periods affirms the business's ability to generate surplus cash. Conversely, a cumulative negative cash flow indicates the amount of additional cash required to sustain the business. When preparing the cash flow statement, accurate and intelligent estimations are essential. It is not a good idea to overestimate sales forecasts, underestimate costs, ignore market value and competition, or rely on bank loans that have not been secured. These are risky assumptions that can lead to underestimation of cash flow: the business may not be able to meet all of its payment obligations. To prevent this from happening, many business owners produce three cash flow statements that portray worst, most likely, and best-case scenarios.

After analyzing the cash flows, the entrepreneur may realize that there is not enough cash readily available to sustain operations. While focusing on increasing sales, some options that can help improve cash flow include

- Reducing overhead expenses
- Reducing number of days (credit) given to customers, especially slow and late payers
- Billing on a real-time basis (as soon as work is completed)
- Using the 80/20 rule to control inventories, receivables, and payables
- Adding late payment charges when possible
- Improving collection system with a collections team in the accounting department
- Becoming more selective when issuing credit to customers
- Slowly increasing prices (as long as they remain in line with market standards)
- Implementing a stringent credit policy and training staff to adhere to it
- Negotiating longer credit terms with suppliers
- Improving manufacturing efficiency and controlling work-in-progress
- Considering extending repayment terms on loans

Sample cash flow statement (annual, prepared monthly)

Month	1	2	3	4	5	6	7	8	9	10	11	12
Cash balance/beginning of period												
Operating cash flow												
+ Sales revenue												
+ Other income												
- Purchases (materials)												
- Salaries												
- Employee benefits/taxes												
- Rent												
- Utilities												
- Telephone												
- Office supplies												
- Advertising												
- Insurance												
Subtotal: cash from operations												
Investing cash flow												
+/- Purchase/Sale of Equipment												
+/- Investments (securities, bonds)												
+/- Noncurrent assets												
Subtotal: cash from investing												
Financing cash flow												
+/- Revenue/payment on loans												
+/- Dividends												
Subtotal: cash from financing												
Total cash flow during period												
Cash balance, end of period												

Break-even analysis

While a break-even analysis is not a standard part of accounting analysis, it is extremely important for startup businesses and projections for new product lines. The break-even analysis predicts the level of sales the business needs to reach the point where the sales cover all the expenses and allow the business to begin making a profit. A startup venture uses this analysis as a benchmark to both assess sales projections and monitor whether operations are on track to achieve the targets. These analyses are also beneficial to established businesses, because they help identify ways to lower the break-even point and thus increase profits.

Calculating the break-even point requires fixed and variable costs to be identified under the following assumptions:

- Average per-unit sales price (SP): price you receive per unit of sales

- Average variable per-unit cost (VC): the variable cost (includes direct materials, labor, variable overhead, transportation) of each unit of sales
- Contribution margin (CM): Sales revenues (SP) – Variable costs (VC)
- Fixed costs (FC): Fixed costs remain constant and include rent/facilities, most general and administrative costs, interest, and depreciation
- Units or number of items sold or produced; in a break-even analysis, it is assumed that the number of units produced during a period is equal to the number sold during the same period

The break-even point is when total sales revenue is equal to total costs (fixed and variable).

1. Calculate the number of units produced or sold at break even.

$$SP(X) = VC(X) + FC$$

Rearranging the formula to solve for X, the number of units at break even will give you

$$X = FC / (SP - VC) \text{ or } X = FC / CM$$

2. Calculate the break-even revenue as follows:

$$\text{Break-even revenue (Le)} = (\text{Break-even units})(\text{Selling price})$$

Example

Using our sample business, Everything Mango, Inc., each jar of mango jam sells for Le 10,000 and costs Le 4,000 to make. The fixed costs for the period are Le 60,000.

$$SP = \text{Le } 10,000$$

$$VC = \text{Le } 4,000$$

$$FC = \text{Le } 60,000$$

Break-even units :

$$X = FC / (SP - VC)$$

$$= \text{Le } 60,000 / (\text{Le } 10,000 - \text{Le } 4,000)$$

$$= \text{Le } 60,000 / \text{Le } 6,000$$

$$= 10 \text{ units}$$

Break-even sales revenue = (break-even units)(SP):

$$= 10 \times \text{Le } 10,000$$

$$= \text{Le } 100,000$$

In other words, Everything Mango has to sell 10 jars of jam to break even, resulting in revenue of Le 100,000.

10. Secrets of Financing

Access to letters of credit, loans, lines of credit, export insurance, or operating capital would significantly help woman-owned businesses to expand and grow. However, obtaining short- or long-term financing is difficult for these businesses in Africa. Mainly due to limited access to information and resources, women entrepreneurs are less likely to meet lender requirements and therefore receive very little financing for their business operations. Is there a secret for African businesswomen to gain better access to credit? Unfortunately, there isn't: the way to increase your competitiveness by being better prepared, submitting excellent proposals, and understanding what types of financing are available.

Preparation and planning

Each bank or financial institution has its own set of criteria that applicants must meet when applying for financing. Examples of lender requirements are audited historical financial statements, a decent credit rating, and collateral (such as a building or land). In addition, to apply for operating capital and medium- to long-term loans, you may also have to submit a comprehensive business plan—complete with a management plan, profit projections, and a repayment timeline. Details about how to write a business plan are found in chapter 3.

Types of financing

Financing comes in many shapes and forms. Microfinance, equity financing, loans, letters of credit, and export insurance policies are only a few examples. The puzzle is to determine the best type of financing for your business. After identifying your needs and understanding what is available, you should ask whether you need to apply for microfinance, a letter of credit, a line of credit, a loan, or if you need to attract individual investors who will put money into your company. To decide what is best, it is important to understand the different types of financing, primarily microfinance, equity financing, and debt financing.

For many small enterprises just getting off the ground or operating in the informal sector, microfinance may be appropriate. Realizing that many small businesses are unable to tap into credit programs of banks and financial institutions, microfinance institutions grant loans in small amounts to small enterprises and cooperatives (mostly women-owned). These loans may run as little as Le 100,000 to as much as Le 1,000,000. Depending on its structure, the program may offer a variety of financial services such as loans, payment services, money transfers, and insurance. It is also important to keep in mind that microfinance programs may be available through different sources. Cooperatives, nonprofit organizations, multilateral organizations, and governments (local and foreign) are known to run microfinance funds. In *most* programs, however, to tap into the fund's resources, it is mandatory that the person or business contribute to the fund by becoming a member and paying dues. Each program designs its own criteria and lending rules, so it is important to research what is available in Sierra Leone and what best fits your needs.

If your business has a few years of audited financial statements, there are several types of financing options worth exploring. However, keep in mind that most banks in Africa tend to have steep criteria, and it may take some time to qualify. When talking about financing, people tend to lump all the types together. It is very important to understand the differences and what they mean to your business.

The two main types of financing are known as equity and debt. *Equity financing* is when an individual or investment firm invests in a business or project. The expectation is that as the business grows, the investor's ownership and share of profits will grow as well. For many small businesses, it is common for family and friends to be equity investors. However, some investment firms invest in new companies—usually businesses that are two to three-years old or startup projects. Such investment companies are called venture capitalists. In addition to their anticipated return on investment (ROI), venture capitalists analyze the firm's competitive advantage, quality, management, and industry growth trends before committing funds.

Debt financing is known to most entrepreneurs as a loan. Unlike equity financing, the entrepreneur has a relationship with a lender. The lender gives money to the entrepreneur (debtor) up front. Then the entrepreneur repays this sum over time with accumulated interest. The lender and debtor agree upon the repayment terms of the loan—the length of the repayment period and the date by which the entire loan will be repaid. In debt financing, lenders make their money on the difference between the rate at which they borrow and the rate at which they lend. For example, the bank may borrow money at a rate of 8 percent and then lend to you at an interest rate of 18 percent. Many entrepreneurs prefer debt financing, because if the business meets the bank's criteria, the loan process tends to be straightforward and they receive money without having to share the company's ownership.

Specific types of financing

Equity financing

Your own money: Often overlooked, your own money is possibly the best financing available. With no bank fees or interest to repay, investing in your own business makes financial sense and shows other potential investors that you are underwriting some of the risk involved in your project. Your financial commitment builds investor confidence and reduces their risk: your equity decreases their financial commitment, which should help you obtain lower interest rates. If your project is fairly new—less than three years old or a startup—you should anticipate making significant investment in your own business. Receiving 100 percent financing for startup projects is extremely rare and, if granted, the interest rates tend to be very high above market rates. With average loan interest rates in Sierra Leone ranging from 20–27 percent, 100 percent financing is not economically viable. So, committing 20–30 percent of your own money—even if you have to downsize the project to do so—is a good idea.

Friends and family (usually equity): In some cases, borrowing from your friends and family is second best to investing on your own. By doing this, you avoid bank fees and interest. However, since most friends and relatives usually don't sign legal contracts with one another, you are on a good-faith basis to repay the amount.

Equity partnerships/joint ventures (equity): Before applying to a bank for a loan or line of credit, entrepreneurs may decide to enter an equity partnership or joint venture. In return for financially investing into the business, the partner owns a percentage of the business and is entitled to a share in profits.

Debt financing

Medium- to long-term debt financing

Loans: In an agreement between a bank or financial institution and a client, the lender underwrites a certain sum to be repaid during a specific period of time at agreed upon interest rates. Interest is usually charged monthly and is linked to the country's prime lending rate. Interest rates and repayment terms are negotiable. Therefore, you should shop around for the most competitive packages. One type of debt financing is a general operating or working capital loan, where the lender underwrites a loan that will be used for business operations such as product development or activity expansion. These loans are granted on the basis of a company's financial statements, projected growth, and anticipated profits generated over the repayment period. While a working capital loan is used for actual business operations, the lender does not acquire any equity or ownership.

Short-term debt financing (very popular for trade): Short-term financing refers to loans that will be repaid in a few years. Very popular with trade and, as a result, known as trade finance, these loans finance actual transactions such as the purchase of commodities or equipment. Repayment terms range from 30 days net to just under a year for consumables and commodities, or up to five years for larger transactions involving equipment or machinery. In trade finance, the lending bank or financial institution anticipates that the sales from the transaction sales are used to pay down the loan. Any money remaining is credited to the borrower's account. In this case, the letter or line of credit is ongoing and replenished. For example, you might be given a Le 100,000 line of credit. You use Le 50,000 and pay back Le 40,000, this leaves you with Le 60,000 of credit. A letter of credit or line of credit usually stays open until a fixed date agreed upon by you and your lender.

Line of credit: Issued by a bank or financial institution, a line of credit gives the applicant access to a certain amount of money she does not currently have in her account. It is "revolving," that is, as the account holder pays off the borrowed portion, the credit limit automatically reissued to the maximum agreed upon amount. In a trade transaction, the buyer and supplier set up the deal assuming the LC will be issued.

Buyer

Agrees to buy product

Requests bank to issue LC

Verifies documents for compliance

Payment is made immediately or upon maturity of accepted draft

Vendor

Agrees to ship goods if LC is opened

LC assures payment if proper documents are presented
Ships goods and submits shipping documents to bank for payment

Payment is made when documents received or accepted

Letter of credit: A letter of credit provides a guarantee by a commercial bank on behalf of a client that is applied against a business transaction or payment obligation. The bank promises to pay an agreed sum upon receipt by the bank of certain documents within a specified time. Under a letter of credit, the business can repeatedly borrow, repay, and borrow again all or part of the credit available.

Overdraft: A line of credit that allows account holders to write credits for amounts larger than their existing deposits.

Export insurance: Strictly related to export trade transactions, export insurance offers buyers the opportunity to receive extended terms of credit for their payment schedule that they would normally not receive from the supplier. An export insurance policy acts as a guarantee

of payment to the supplier. This allows the buyer to pay off the transaction over a period of time such as net 30, 60, or 180 days. Both public and private credit agencies exist. The U.S. government credit agency is called the U.S. Export-Import Bank, www.exim.gov. Here foreign buyers (not American citizens) can take out an export insurance policy when they are purchasing U.S. goods such as equipment, consumables, and foodstuff. The insurance policy benefits all parties involved. Given that it is a first-time customer and the transaction is riskier because the buyer is far away in Africa, the company may not be willing to give the buyer extended credit terms such as 60 days and will only make the sale if the buyer pays 100 percent of the transaction in advance. Once the money is received, the supplier ships the product. However, from the buyer's point of view, this is not a good setup. First, she does not have 100 percent of the cost upfront, because she wants to resell the product and pay the supplier with revenue that she made from her sales. Second, she doesn't know the supplier either, and is hesitant to pay in advance. There is a risk that she will not receive her product on time or at all. Or she may receive it in bad condition. If she pays 100 percent up front, she has no bargaining power with the supplier to mend things if she is not satisfied with the order. So, she and the supplier decide to take out an export insurance policy. This way, she can pay the supplier over her preferred extended credit terms of 60 days. The supplier is also happy because he is paid 100 percent of the transaction up front and does not have to wait 60 days to get paid.

Loan guarantee: Similar to export insurance, a buyer uses a loan guarantee to purchase goods from outside her country. As with an export insurance policy, the buyer is the importer. Used for larger transactions, a loan guarantee eliminates the bank's risk of payment default, because a credit agency guarantees the loan. In essence, if the buyer (borrower) defaults or doesn't submit her loan payment, the credit agency will pay the bank the default amount. As a result, this eliminates any financial risk to the bank, and the bank should in turn be able to offer the borrower competitive interest rates and repayment schedules. In Africa, the interest rates in some countries can be as high as 25 percent. With a loan guarantee, U.S. and other international banks have been known to give much lower interest rates, around 12 percent, to African buyers interested in buying U.S. goods. The lower interest rates are much more attractive, and the U.S. banks are more comfortable with underwriting the loan because they do have to compensate for the risk of payment default. For more information on loan guarantees, please visit www.exim.gov

These summaries give you an idea of the types of financing that may be available to you. Now it is up to you to decide what will work best for your business.

Appendix 1. Useful Business Forms

BUSINESS REGISTRATION ACT (NO. 1 OF 1983)



Application for Registration/ Licence of a Business (Section 4)

- (a) Name, Address and Nationality of the Proprietor or Proprietors.....
.....
.....
- (b) (i) Name, Address and Nationality (if any) of the Business where referred from (a) above.....
.....
.....
(ii) Full Particulars of any Branch or other place of Business in Sierra Leone.....
.....
.....
.....
- (c) The nature of the Business.....
.....
.....
- (d) The date of commencement of Business (if already in existence).....
.....
- (e) (i) Date of registration of Business (if already registered under the Business Registration Act).....
.....
(ii) Serial number of Certificate of Registration.....
- (f) The capital employed in the Business (including all Branches in Sierra Leone) with details of--
(i) Nominal issued and fully paid up Capital.....
(ii) All Asset and Liabilities of the Business.....
.....
.....
- (g) The turnover of the Business for the period of:
(i) Twelve months to date of application.....or
(ii) Twelve months to 31st March, 20.....or
(iii) Twelve months to financial year ending.....or
(iv) In the case of a new Business estimate Turnover of Twelve months from date of commencement
By.....

(h) (i) Name, Address and Nationality of each Partner and his/her contribution to the Capital

Name	Address	Nationality	Contribution
.....
.....
.....
.....

(ii) Number of Shareholders —

Sierra Leoneans

Non-Sierra Leoneans

.....
.....
.....

(iii) Contribution of Shareholders —

Sierra Leoneans
Le

Non-Sierra Leoneans
Le

.....
.....
.....

DATED this.....day of.....20.....

.....
Signature of Applicant.

FORM SS 1A

REPUBLIC OF SIERRA LEONE MEMBER'S REGISTRATION FORM

NATIONAL SOCIAL SECURITY AND INSURANCE TRUST ACT, No. 5, (2001)



SERIAL NUMBER

SS No.

Please note that you are liable to prosecution in the event of any false declaration under the Social Security Act

Member's Name		Surname		First name	
		Middle Names			
Previous		Surname		First name	
Or Maiden Name		Middle Names			
Permanent Address					
Current Address					
Marital Status		Single <input type="checkbox"/>	Married <input type="checkbox"/>	Divorced <input type="checkbox"/>	Widowed <input type="checkbox"/>
Nationality		Country of Birth		Sex	
Place of Birth		Province		District	
		Chiefdom		Town	
Date of Birth		Day / Month / Year		Date Joined Scheme	
				Day / Month / Year	
Nature of Income		Income		Occupation / Civil status	
Daily / Monthly / Other					
Name of Father		Surname		First name	
		Others			
Name of Mother		Surname		First name	
		Middle Names		Maiden Name	
Employer Details		Institution		E.I.D. Number	
		Address		Telephone / Fax / E-mail	

NATIONAL SOCIAL SECURITY AND INSURANCE TRUST ACKNOWLEDGMENT OF RECEIPT OF FORM SS 1A

SERIAL NUMBER

This is to Certify that Mr. /Mrs. / Ms. of has duly completed Form SS 1A.

Name of NASSIT Official.....

Place of issue.....

Date..... Signature.....

R
T
P

IMPORTANT: KEEP THIS SLIP SAFELY AND PROTECT IT FOR PHOTO VERIFICATION

I hereby declare that the person(s) mentioned below to receive benefits in the event of my death are my dependants

Name of Dependant and SS No. (if any)	Date of • Birth	Age	Relationship of Member	Permanent / Residential Address

DECLARATION

I CERTIFY THAT:

1. I have never been registered as a member of this scheme.
2. The facts stated above are true and accurate

.....
Signature of contributor

.....
*Signature, Stamp and Seal of
Employer / Authorised Agent*

I CERTIFY THAT:

1. Completion of both sides of this form was supervised by me
2. The thumb prints and signature are those of the contributor.

.....
Signature of NASSIT Official

.....
Name of NASSIT Official

Date.....

NOTE OF INTERVIEW
TAX DISTRICT ONE

1. NAME & ADDRESS OF OFFICER: - M /MRS/MISS
C/o NRA (TAX DIST. ONE)
2. NAME & ADDRESS OF T/P/T/Ps REPR:
.....
3. T/P's FILE No.
4. T/P's TEL. No.
5. DATE OF INTERVIEW: -
6. NAME OF TAXPAYER:-
7. ADDRESS OF TAXPAYER:-
8. PURPOSE OF T/P's VISIT/CALL: -
9. TYPE/STATUS OF BUSINESS: -
10. BUSINESS NAME: -
.....
11. BUSINESS ADDRESS:-
12. NATURE OF BUSINESS:-
13. DATE OF COMMENCEMENT OF BUSINESS: -
14. PREVIOUS ENGAGEMENT: -
15. INITIAL WORKING CAPITAL:-
16. SOURCE OF INITIAL WORKING CAPITAL: -
17. INITIAL WORKING ASSETS VALUE:-
(LIST OF ASSETS WITH THEIR VALUE)
18. INITIAL WORKING LIABILITIES VALUE:-
(SOURCE OF LIABILITIES)
19. BANKERS:-
.....

20. DOES T/P IMPORTS/IMPORTATION:-

a) C.I.F. (TOTAL):-

b) 3% WITH-HOLDING TAX:-

21. RENT PAID FOR BUSINESS PREMISES (P/A):-

a) NAME & ADDRESS OF LANDLORD/LANDLADY:-

b) DATE OF COMMENCEMENT OF TENNANCY:-
(RENT AGREEMENT REQUIRED PLEASE)

c) 10% WITHHOLDING TAX PAID:-

22. RENT PAID FOR RESIDENCE (P/A):-

a) NAME & ADDRESS OF LANDLORD/LANDLADY:-

b) DATE OF COMMENCEMENT OF TENNANCY:-
(RENT AGREEMENT REQUIRED PLEASE)

c) 10% WITHHOLDING TAX PAID:-

23. DETAILS OF PARTNERS: -

NAMES	ADD. OF	NATIONALITY	% SHARE	CONTRIBUTION
<u>OF PARTNERS</u>	<u>PARTNER</u>		<u>OF PROFIT</u>	<u>TO CAPITAL</u>

(a)

(b)

(c)

(d)

(e)

(f)

(g)

(h)

(i)

(j)

24. WHO SIGNS PARTNERSHIP CHEQUES: -

25. PARTNERS SOURCE OF CONTRIBUTION TO CAPITAL: -

.....

.....

26. IN TERMS OF DISSOLUTION OF PARTNERSHIP WHO DECIDES THE SALE OF
ALL ASSETS: -

.....

27. PARTNERSHIP AGREEMENT/DEED: -

.....

28. BANK STATEMENT: - (.....)

.....

29. ESTIMATED/PROJECTED TURNOVER: -

30. ESTIMATED/ PROJECTED CHARGEABLE INCOME: -

31. MARITAL STATUS: -

32. NUMBER OF CHILDREN: -

33. NUMBER OF DEPENDANT: -

NOTES READ AND ACCEPTED AS CORRECT.

SIGNATURE OF TAXPAYER: -

SIGNATURE OF OFFICER: -



**NATIONAL REVENUE AUTHORITY
SIERRA LEONE GOVERNMENT**

Serial No..... Code.....

INCOME TAX YEAR OF ASSESSMENT

20...../20.....

Please quote

Demand Notice of Provisional
Assessment (Section 113 (1)
and/or Section 104 (1) of the
Income Tax Act 2000)

Registration No.....

Assessment No

Annual No.....

To:.....

.....

.....

.....

TAKE NOTICE for the year of assessment 20...../20..... Your business has been Provisionally assessed to tax for the purpose of collection thereof on your current business accounting year basis in sum/additional sum of Le..... as computed Below:-

COMPUTATION

- a) Tax charged or chargeable on the basis of current year of assessment.
- b) Total chargeable income of the basis period of the current year of assessment.

- | | | | |
|------|--|----|------|
| | | Le | Cts. |
| (i) | Total Turnover Le.....
Cents per centum Ass. Income from other
Sources (i.e. rents interest, dividends etc.) | | |
| (ii) | Total computed taxable profits from all
Sources as per accounts to.....20.....
35% | | |

Total Provisional tax payable OR

- c) In the absence of (a) and (b) above a chargeable income
Computed in accordance with Section 5 & 6
(Part III of 1st Schedule) 35%

Total Provisional Tax
Payable
Add Tax

" "
" "

- a. The tax as aforesaid shall be paid in equal

Le

Cts

Instalment as herein under specified

On or before 15th September 20..... ..

On or before 15th December 20..... ..

On or before 15th March 20..... ..

On or before 15 June 20..... ..

- b. Where the chargeable income is computed by reference to gains or profit of the business accounting year.

On or before 15th March 20..... ..

On or before 15th June 20..... ..

On or before 15th September 20..... ..

On or before 15th December 20..... ..

3. Payment of the instalments referred to above shall be made within the Prescribed time to the Income Tax Department, Head Quarters, Freetown or any of the Regional Offices.

Dated:.....Day of.....20.....
FREETOWN, BO, MAKENI, KENEMA, KONO.

.....
COMMISSIONER OF INCOME TAX